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# THE PROGRAM FOR BETTER JOBS AND INCOME: AN ANALYSIS OF COSTS AND DISTRIBUTIONAL EFFECTS

## A STUDY

PREPARED FOR THE USE OF THE

## JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

FEBRUARY 3, 1978

Printed for the use of the Joint Economic Committee

## JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

RICHARD BOLLING, Missouri, *Chairman*

LLOYD BENTSEN, Texas, *Vice Chairman*

(II)

# ERRATA SHEET

Page 2, Table 1 "($1,978 billions)" should be

"(in billions of 1978 dollars)";

Page 10, line 8 "service jogs" should be "service jobs"

and "demand for jogs" should be "demand for jobs".

# LETTERS OF TRANSMITTAL

JANUARY 31, 1978.
*To the Members of the Joint Economic Committee:*
  Transmitted herewith for use of the members of the Joint Economic
Committee and other Members of Congress is a study entitled "The
Program for Better Jobs and Income: An Analysis of Costs and
Distributional Effects."
  This is one of three studies commissioned by the Joint Economic
Committee on the subject of welfare reform. These studies are in-
tended to provide information and analysis to the Congress on this
important issue. This study, prepared by Professors Robert Haveman
and Eugene Smolensky, University of Wisconsin, focuses on the budg-
etary costs and distributional effects of varying certain basic elements
in the Administration's welfare reform proposal.
  The views expressed in this study are those of its authors and
should not be interpreted as representing the views or recommenda-
tions of the Joint Economic Committee or any of its members.
                                   RICHARD BOLLING,
                         *Chairman, Joint Economic Committee.*

JANUARY 27, 1978.
Hon. RICHARD BOLLING,
*Chairman, Joint Economic Committee,*
*U.S. Congress, Washington, D.C.*
  DEAR MR. CHAIRMAN: Transmitted herewith is a study entitled
"The Program for Better Jobs and Income: An Analysis of Costs and
Distributional Effects," prepared by Professors Robert Haveman and
Eugene Smolensky, University of Wisconsin.
  This study is the third Committee study on welfare reform intended
to provide information and analysis on important aspects of the wel-
fare reform proposal, including a review of its macroeconomic effects
and an analysis of its budgetary costs and distributional effects.
  Drs. Haveman and Smolensky have evaluated the cost and benefit
effects of various revisions of the Administration's proposals.
  The Committee is grateful for the cooperation and assistance of the
U.S. Department of Health, Education, and Welfare in the preparation
of this study. This study was reviewed by Deborah Norelli Matz and
Tom Cator of the Committee staff.
      Sincerely,
                                   JOHN R. STARK,
                                     *Executive Director,*
                                     *Joint Economic Committee.*

# CONTENTS

(V)

# THE PROGRAM FOR BETTER JOBS AND INCOME: AN ANALYSIS OF COSTS AND DISTRIBUTIONAL EFFECTS

By ROBERT HAVEMAN AND EUGENE SMOLENSKY*

The program for better jobs and income (PBJI) would change the pattern of income flows to a large number of the nation's families and would change both the incentives and the opportunities to work. In a previous report, we presented a critique of the entire plan. Here, we focus on two aspects of the proposal in more detail—its cost and its distributional consequences.

In sections I and II, we briefly review what is now known about the program's costs and distributional effects. This review is based largely on recent estimates by the Congressional Budget Office (CBO) and serves as background for some additional calculations made by the Department of Health, Education, and Welfare (DHEW), and supplied to us by the Joint Economic Committee. In these calculations, several aspects of the program were altered and the resulting changes in costs and distributional effects estimated. These particular changes were chosen because they appeared to be characteristics of the PBJI most likely to prove contentious during the legislative process. The results of these calculations are presented in section III. Finally, in section IV, we characterize what it is the administration is buying with the incremental expenditures required for PBJI, and summarize some of the findings from the simulations reported in section III.

It should be emphasized that the data in this report were estimated by DHEW with the same basic microdata simulation model as was employed by the administration in their original description of the consequences of enacting PBJI. Our analysis is aimed at examining some of the effects of changing various aspects of PBJI; it does not challenge the accuracy or adequacy of the procedures by which DHEW predicts costs and benefits.[1]

## I. THE BUDGETARY COSTS OF PBJI

The administration presented cost estimates at the time the details of the program were released. Table 1 presents the details of these estimates. The two main components of outlays are the cash benefits of $19.2 billion and the public service jobs of $8.8 billion. Offsetting these expenses are, primarily, the phaseout of three existing transfer programs which accounts for $17.6 billion and the reduction which is possible in manpower training and other public employment programs

[1] The administration's cost and benefit estimates have been scrutinized in: Danziger, Sheldon; Haveman, Robert; and Smolensky, Eugene, "The Program for Better Jobs and Income—A Guide and a Critique," Joint Economic Committee Print, U.S. Congress, October 17. 1977; Hausman, Leonard J. and Friedman, Barry L., "Work, Welfare, and the Program for Better Jobs and Income," Joint Economic Committee Print, U.S. Congress, October 14, 1977; U.S. Congress, Congressional Budget Office, letter on cost estimates for Representative James C. Corman, November 29, 1977; and Storey, James R., et al., "The Better Jobs and Income Plan: A Guide to President Carter's Welfare Reform Proposal and Major Issues," the Urban Institute, mimeo, January 5, 1978.

because of PBJI, which accounts for $6.9 billion. Considering both pluses and minuses, the net drain on the Federal budget in 1978 is estimated to be $2.8 billion.

TABLE 1.—*Administration estimate of the costs of PBJI, and the components of costs ($1,978 billions)*

| | |
|---|---:|
| Basic Federal income supplement program | $19. 17 |
| Cash grants to all eligibles | (17. 08) |
| Cash grants to participants | (15. 31) |
| Cash grants to participants plus adjustments | 16. 97 |
| Administration | 2. 20 |
| Federal costs for matching State supplements | 1. 49 |
| Adjustments for hold harmless, State share calculation, and Puerto Rico | −. 49 |
| Earned income tax credit | [1] 1. 50 |
| Emergency assistance | . 61 |
| Employment program | 8. 80 |
| Full-time jobs | 7. 88 |
| Part-time jobs | . 52 |
| Administration | . 40 |
| Total outlays | 31. 08 |
| Savings from reductions in expenditure on other programs or increases in taxes | 28. 30 |
| Abolition of AFDC | 6. 40 |
| Abolition of SSI | 5. 70 |
| Abolition of food stamps | 5. 50 |
| Reductions in EITC from additional earnings | 1. 10 |
| Reductions in CETA, Win, and UI | 6. 90 |
| Reduction in housing programs | . 30 |
| Increased payroll taxes | . 70 |
| Reduction in fraud | . 40 |
| Wellhead tax | 1. 30 |
| Net cost of PBJI | 2. 78 |

[1] Tax benefits of $3,000,000,000 for those who will not receive income supplements are not considered by the administration to be a cost of the welfare program.

The administration's cost estimate, in particular, the use of energy tax revenues and fraud elimination to offset program costs, and the neglect of additional tax reduction benefits given to middle income groups have been questioned.[2] However, they serve as a useful starting point for the analyses to be undertaken in part III. They were calculated using the same computer model and are therefore consistent with and directly comparable to the numbers presented there.

[2] See Danziger, Haveman, and Smolensky, ibid. ; U.S. Congress, Congressional Budget Office, ibid. ; and Storey et al., ibid.

## II. The Effects of PBJI on Various Groups of People

One objective of the PBJI proposal is to integrate and improve the administration of and incentives created by the existing melange of income transfer programs. A second objective is to increase the opportunities for, and necessity of, work for many who now are unemployed or underemployed. A third objective is to reduce the level of income poverty in the United States. For this reason, estimates of the effect of various program characteristics on groups of beneficiaries are relevant in the policy debate.

Here we summarize some estimates of the distributional effects of PBJI, as produced by the Congressional Budget Office, employing a computer model very similar to that used by DHEW. These figures are to serve as a backdrop to our sensitivity-type analysis in part III in the same manner as the base estimates of program costs presented in the previous section.

Tables 2, 3, and 4 display the CBO estimates of the antipoverty and income distributional effects which PBJI would have achieved if it were in effect in 1975. The story which these figures tell can be summarized as follows:

While two-thirds of welfare recipients had annual income below $5,000 in the current system, only 41 percent of assistance recipients would be below $5,000 under PBJI, a reduction of one-half million families.

The current system eliminates $12.7 billion of the poverty gap, which is about 54 percent of the prewelfare gap. PBJI reduces the gap by $16.1 billion, or 68 percent.

Under current welfare programs, 11.2 percent of all families are left in poverty, PBJI reduces this to 9 percent, a reduction of about 20 percent.

PBJI appears to reduce poverty for most demographic groups— the aged, single parent families, intact families, families with disabled members, working poor families, and Southern families. It fails to raise the ratio of black to white incomes.

While about one-fourth of poor families would be made worse off under PBJI, 43 percent would experience an improvement in their financial status. Nearly all aged families would remain at least as well off. About 50 percent of single-parent families would be benefitted and very few left worse off. Over one-third of all black families are gainers, relative to about one-fifth of white families.

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TABLE 2.—DISTRIBUTION OF FAMILIES AND BENEFITS BY PREWELFARE INCOME CLASSES UNDER CURRENT POLICY AND ADMINISTRATION'S WELFARE REFORM PROPOSAL, 1975.

| Program | Less than $5,000 | $5,000 to $9,999 | $10,000 to $14,999 | $15,000 to $24,999 | $25,000 and over | Total |
|---|---|---|---|---|---|---|
| Distribution (thousands of families): | | | | | | |
| All families | 16,738 | 16,310 | 14,652 | 18,327 | 8,548 | 74,576 |
| Current policy: | | | | | | |
| Welfare programs [1] | 8,614 | 2,317 | 925 | 691 | 168 | 12,715 |
| Earned income tax credit | 2,426 | 3,131 | 509 | 360 | 56 | 6,483 |
| Total | 9,058 | 4,257 | 1,267 | 934 | 211 | 15,727 |
| Administration's welfare reform proposal: | | | | | | |
| Cash assistance | 9,382 | 3,934 | 2,426 | 1,351 | 257 | 17,351 |
| Public service jobs | 1,292 | 905 | 294 | 251 | 45 | 2,787 |
| Earned income tax credit | 2,037 | 4,783 | 4,741 | 1,432 | 134 | 13,129 |
| All components | 9,507 | 5,794 | 5,373 | 2,348 | 348 | 23,371 |
| Benefits (billions of dollars): | | | | | | |
| All families | | | | | | |
| Current policy: | | | | | | |
| Welfare Programs [1] | 15.0 | 2.9 | 1.2 | 0.9 | 0.3 | 20.4 |
| Earned income tax credit | .5 | .5 | [2] 0 | [2] 0 | [2] | 1.2 |
| Total | 15.5 | 3.4 | 1.2 | .9 | .3 | 21.6 |
| Administration's welfare reform proposal: | | | | | | |
| Cash assistance | 17.1 | 4.7 | 2.1 | 1.2 | .2 | 25.5 |
| Public service jobs | 3.3 | 1.8 | 0.6 | .4 | .1 | 6.1 |
| Earned income tax credit | .4 | 1.8 | 1.3 | .4 | [2] 0 | 3.9 |
| All components | 20.8 | 8.4 | 4.0 | 2.0 | .3 | 35.6 |

[1] Includes aid to families with dependent children, supplemental security income, state general assistance, and food stamps.
[2] Rounds to zero.

Note: Preliminary estimated, Oct. 12, 1977.

Source: Statement of Robert D. Reischauer, "Preliminary Analysis of the Distributional Impact of the Administration's Welfare Reform Proposal," Task Force on Distributive Impacts of Budget and Economic Policy. Committee of the Budget, U.S. Congress, Oct. 13, 1977.

# 5

TABLE 3.—NUMBER OF FAMILIES IN POSTTAX, POSTTRANSFER POVERTY BY TYPE OF FAMILY AND REGION OF RESIDENCE UNDER CURRENT POLICY AND ADMINISTRATION REFORM PROPOSAL, 1975

[Families in thousands]

| Characteristics of families | Post cash social insurance income | Posttax, posttransfer income | |
|---|---|---|---|
| | | Current policy | Administration's reform proposal |
| All families | 10,840 | 8,339 | 6,713 |
| Age of head: | | | |
| 65 and over | 2,916 | 2,047 | 1,444 |
| Under 65 | 7,924 | 6,292 | 5,269 |
| Family type: | | | |
| Single parent with children | 2,577 | 1,565 | 1,172 |
| Youngest child under 6 | 1,235 | 855 | 551 |
| Youngest child 6 to 13 | 1,058 | 541 | 454 |
| Youngest child 14 and over | 284 | 169 | 166 |
| 2 parents with children | 1,676 | 1,213 | 523 |
| Other | 6,587 | 5,560 | 5,017 |
| Health status: | | | |
| Disabled member | 1,425 | 887 | 721 |
| Nondisabled member | 9,415 | 7,452 | 5,992 |
| Employment status of head: | | | |
| Working full time | 2,305 | 1,989 | 1,525 |
| Working part time | 1,607 | 1,200 | 1,012 |
| Unemployed | 912 | 738 | 587 |
| Not in labor force | 6,016 | 4,412 | 3,589 |
| Race of head: | | | |
| White | 8,039 | 6,248 | 4,854 |
| Nonwhite | 2,801 | 2,091 | 1,859 |
| Region of residence: | | | |
| South | 4,250 | 3,608 | 2,935 |
| West | 1,928 | 1,307 | 1,077 |
| Northeast | 2,207 | 1,480 | 1,064 |
| North central | 2,454 | 1,944 | 1,637 |

Note: Preliminary estimates, Oct. 12, 1977.

Source: See table 3.

6

TABLE 4.—NUMBER OF FAMILIES GAINING OR LOSING BENEFITS, BY FAMILY TYPE, UNDER ADMINISTRATION WELFARE REFORM PROPOSAL, 1975

| Current policy posttax, posttransfer income status | Amount of income lost | | Total families losing | Families with no change | Total families gaining | Amount of income gained | |
|---|---|---|---|---|---|---|---|
| | $500 or more | $100 to $499 | | | | $100 to $499 | $500 or more |
| Poverty status: | | | | | | | |
| Below poverty | 761 | 1,040 | 1,801 | 2,011 | 2,902 | 1,303 | 1,599 |
| Above poverty | 1,423 | 1,462 | 2,885 | 50,610 | 14,368 | 6,729 | 7,639 |
| Welfare status: | | | | | | | |
| Cash assistance only | 204 | 946 | 1,150 | 556 | 1,229 | 5.3 | 716 |
| Food stamps only [1] | 1,492 | 1,077 | 2,569 | 779 | 2,462 | 1,388 | 1,074 |
| Cash assistance and food stamps [1] | 486 | 423 | 909 | 531 | 2,530 | 1,034 | 1,496 |
| No cash assistance or food stamps | 2 | 55 | 57 | 52,621 | 11,048 | 5,097 | 5,951 |
| Age of head: | | | | | | | |
| 65 and over | 487 | 741 | 1,228 | 10,915 | 3,312 | 2,008 | 1,304 |
| Under 65 | 1,697 | 1,760 | 3,457 | 41,706 | 13,958 | 6,024 | 7,934 |
| Family type: | | | | | | | |
| Single parent with children | 548 | 522 | 1,070 | 2,321 | 3,691 | 1,492 | 2,198 |
| Youngest child under 6 | 157 | 141 | 298 | 385 | 1,594 | 710 | 884 |
| Youngest child 6 to 13 | 266 | 241 | 507 | 1,107 | 1,652 | 614 | 1,038 |
| Youngest child 14 and over | 126 | 139 | 264 | 829 | 445 | 168 | 276 |
| 2 parents with children | 553 | 320 | 873 | 16,608 | 9,029 | 4,000 | 5,028 |
| Other | 1,083 | 1,659 | 2,742 | 33,691 | 4,550 | 2,540 | 2,010 |
| Health status: | | | | | | | |
| Disa led member | 651 | 463 | 1,114 | 1,123 | 1,261 | 540 | 721 |
| Nondisabled member | 1,533 | 2,039 | 3,571 | 51,498 | 16,009 | 7,492 | 8,517 |
| Employment status of head: | | | | | | | |
| Working full time | 519 | 683 | 1,202 | 30,350 | 8,165 | 3,615 | 4,514 |
| Working part time | 361 | 433 | 794 | 7,358 | 2,235 | 1,054 | 1,181 |
| Unemployed | 99 | 189 | 288 | 1,5'5 | 1,071 | 387 | 684 |
| Not in labor force | 1,205 | 1,197 | 2,401 | 13,368 | 5,798 | 2,976 | 2,858 |
| Race of head: | | | | | | | |
| White | 1,629 | 1,977 | 3,606 | 47,787 | 13,981 | 6,641 | 7,340 |
| Nonwhite | 555 | 524 | 1,079 | 4,334 | 3,289 | 1,391 | 1,897 |
| Region of residence: | | | | | | | |
| South | 531 | 1,017 | 1,548 | 15,686 | 6,388 | 3,348 | 3,040 |
| West | 591 | 401 | 991 | 10,260 | 2,677 | 1,189 | 1,488 |
| Northeast | 608 | 427 | 1,035 | 11,989 | 3,899 | 1,618 | 2,281 |
| North central | 453 | 657 | 1,110 | 14,686 | 4,306 | 1,877 | 2,429 |
| All families | 2,184 | 2,501 | 4,685 | 52,621 | 17,269 | 8,032 | 9,237 |

[1] The Survey of Income and Education underestimates the amount of food stamp benefits provided in 1975. Therefore, these preliminary estimates may overstate the number of gainers and understate the number of losers for those who receive food stamp benefits under the current program.

Note: Preliminary estimates, Oct. 12, 1977

Source: See table 3.

## III. The Cost and Distributional Effects of Changing Some PBJI Characteristics

Sections I and II serve as background for a supplemental set of calculations requested by the Joint Economic Committee and supplied by DHEW. The purpose of these calculations is to analyze the effect on both program costs and distributional impacts of changes in a limited number of key program parameters. The analysis focusses on those parameters likely to be questioned during legislative deliberations on the proposal. In this section, we describe the parameter changes and summarize their cost and distributive impacts.

1. *Elimination of Two Tiers in the Cash Benefit Portion of the Federal Program and Movement to a Single Tier Negative Income Tax With a Guarantee of $4,200*

This change is equivalent to raising the guarantee and eliminating the $3,800 disregard when calculating cash supplements for those expected to work. It is a simplification of the plan. Some judge that this change will make the task of getting people to seek jobs more difficult by reducing one of the penalties for not working. Cash transfers and jobs could easily become two quite separate programs if this change were made.

The effects of this change in the structure of PBJI are shown in table 5. The implications of this change are very modest—while cash benefits rise by 4 percent, the cost of the jobs program falls by 5 percent, leaving a net increase in program costs of $0.4 billion. If the impact of the two-tier provision on employment and work effort is as insubstantial as these simulations show, the program simplification achieved by this change should be seriously considered. In addition, estimates of the effect of the change indicate that the number of existing welfare recipients made worse off will not increase. Indeed, given the nature of the change, the increase in costs is likely to yield some increased poverty reduction as well as simplifying the proposal.

TABLE 5.—THE EFFECT OF PARAMETER CHANGE 1 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

|  | Proposed PBJI | Modified PBJI |
|---|---|---|
| Federal cash benefits (billions) | $19.2 | $20 |
| Number of job slots (millions) | 1.175 | 1.116 |
| Cost of jobs program (billions) | $8.8 | $4.8 |
| Cost of EITC (billions) | $4.5 | (¹) |
| Number of current AFDC recipients made worse off (millions) | 3.8 | (¹) |
| Number of current SSI recipients made worse off (millions) | 1 | (¹) |

¹ Indicates no change from the proposed PBJI.

## 2. *Retention of the Existing Earned Income Tax Credit (EITC) or Completely Eliminating It*

The current EITC simultaneously reduces the benefit reduction rate for low earnings (largely, part-time) workers and adds 10 points to the benefit reduction rate for workers who earn from $4,000–$8,000 per year. As a result, work incentives are increased for the former group, and decreased for the latter group. And, because of the shape of the distribution of earnings, the latter group is relatively larger than the former, very low earnings group. Two alternatives are available for reducing the disincentives problem for the higher income group. They are: (1) Increase the kink-point to the break-even income level, or (2) eliminate the EITC altogether. The choice made by the administration (to shift out the kink-point) reduces the share of total PBJI benefits going to the poor although their total benefits are increased. Table 6 indicates what is gained and at what cost. If the EITC is eliminated, the incentive for individuals to seek private rather than special public service employment is lost. The implication of this change on the demand for public service jobs and the characteristics of those who would hold them is shown by the simulation.

TABLE 6.—THE EFFECT OF PARAMETER CHANGE 2 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

|  | Proposed PBJI | PBJI with existing EITC | PBJI with no EITC |
|---|---|---|---|
| Federal cash benefits (billions) | $19.2 | (¹) | (¹) |
| Number of job slots (millions) | 1.175 | 1.199 | 1.257 |
| Cost of jobs program (billions) | $8.8 | $8.98 | $9.4 |
| Cost of EITC (billions) | $4.5 | $0.5 | 0 |
| Number of current AFDC recipients made worse off (millions) | 3.8 | 4.1 | 4.4 |
| Number of current SSI recipients made worse off (million) | 1 | (¹) | (¹) |

¹ Indicates no change from the proposed PBJI.

: Table 6 shows the impact of both changes in PBJI on some important cost and distribution variables. If expansion of the EITC were rejected in favor of maintaining the existing tax credit, the demand for public jobs would be expanded as individuals would find private sector employment less attractive. However, this expansion is small—25,000 jobs—implying a 2-percent increase in the costs of the public jobs program. The costs of the EITC would fall by about 90 percent; a reduction of $4 billion in the budgetary costs of the program. Overall, a budget cost saving of $3.8 billion would be experienced. The effects of this budget cut are: to increase the demand for title IX special public service jobs, and some increase in the benefit reduction rate at earnings levels between $4,000 and $15,000.

Complete elimination of the EITC would have similar, but larger, effects. The demand for special public service jobs would increase by 82,000 and the budgetary cost of the jobs component would increase by $0.6 billion, or 7 percent. The budgetary cost of the total program would decrease by $3.9 billion, approximately the same amount as simply retaining the existing EITC. Moving from retention of the existing EITC to its elimination appears to yield very limited gains: trivial budget savings are experienced, an additional 60,000 jobs must be provided, and any gain in work incentives in the $4,000–$8,000 range are offset by reductions in the income range below $4,000. Neither of the changes analyzed have much effect on the status of the existing welfare population although in both cases the number of current AFDC recipients made worse off increases somewhat. By the nature of the changes, the target efficiency of the program would be increased as the primary reduction in costs is from reduced benefits accruing to nonpoverty families. Retaining the existing EITC results in greater poverty reduction than eliminating the EITC altogether. The expanded EITC reduces poverty even more than does the existing EITC.

3. *Increasing the Incentive To Take a Regular Public or Private Sector Rather Than a Special (Title IX) Public Sector Job*

In the original PBJI, incentives to seek private sector employment rather than a public job came from two sources—the EITC paid on only private earnings and a lower cash benefit schedule for those on special purpose jobs.[3] When the program was finally unveiled, the full burden of inducing private sector job search fell entirely on the EITC. The effect of this reduction in inducement for regular employment is shown in Table 7. Substitution of the earlier, larger private sector inducement would reduce the costs of both the cash benefits and the jobs components of PBJI. Taken together, a cost saving of $1.6 billion would be experienced. Moreover, the number of new title IX jobs which would have to be created by the administration would be reduced by 153,000, as this number of workers would choose private or regular public sector jobs. The primary gain from the $1.6 billion cost increase associated with this change is a reduction in the complexity of calculating cash benefits. Because the small reduction in cash benefits (from $19.2 to $18.7 billion) reflects reduced payments to workers taking regular employment, the change will have little, if any, effect on the status of existing welfare recipients.

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[3] In the earlier benefit schedule the earnings disregard on public service jobs was $1,900.

TABLE 7.—THE EFFECT OF PARAMETER CHANGE 3 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

|  | Proposed PBJI | Modified PBJI |
|---|---|---|
| Federal Cash Benefits (billions) | $19.2 | $18.7 |
| Number of Job Slots (millions) | 1.175 | 1.022 |
| Cost of Jobs Program (billions) | $8.8 | $7.7 |
| Cost of EITC (billions) | $4.5 | $4.6 |
| Number of Current AFDC recipients made worse off (millions) | 3.8 | (¹) |
| Number of current SSI recipients made worse off (million) | 1 | (¹) |

¹ Indicates no change from the proposed PBJI.

4. *Increasing the Wage Rate in the Special Public Service (Title IX) Jobs From the Minimum Wage to $3.00 ($4.00) Per Hour*

As the wage rate on the public service jobs rises, demand for them increases, particularly among those individuals now currently employed full time, full year in the private sector. If the $8.8 billion cap on expenditures is maintained, total expenditures for cash assistance would probably rise. There are two partially offsetting effects at work. On the one hand, many more public service jobholders would receive no cash assistance at all. On the other hand, many more families would receive the maximum guarantee of the upper tier, if the expenditure cap limits the number of jobs available.

Currently, there is mounting pressure for an increase in the wage rate paid for title IX jobs. The concern is that payment of the minimum wage would tag these jobs as second class, and perhaps more importantly, payment of the minimum wage would tend to under cut the prevailing wage rate in some labor markets. While these points have merit, increasing the wage payment has the potential for greatly increasing the demand for special public jobs and increasing the total cost of the program. Table 9 presents the implications of increasing the wage rate to $3 and to $4 per hour, under the assumption that the total demand for special public jobs will be met.

The results in table 8 are most revealing. The modest wage rate increase from $2.65 per hour to $3 per hour increases the demand for title IX jobs by 340,000, and increases the costs of the jobs component of PBJI by $3.5 billion. The increase in the total cost of PBJI is a smaller $2.6 billion because of reductions in cash benefits and the EITC. As the wage rate is moved up to $4 per hour, the changes in costs become much larger. The number of workers now preferring a special title IX job is increased from 1.175 million to 2.491 million— an increase of 1.316 million jobs. Without a cap the budget cost of the jobs component more than triples—from $8.8 billion to $26.9 billion— and the total cost of the program increases by $15.3 billion. The gains from an increase in the wage rate are real. They include avoidance of a stigma placed on the public jobs and the potential erosion of prevailing wage rates. However, the budgetary costs of increasing the wage rate to the $3 level and beyond are substantial. Although this change primarily affects the balance of workers between private and public sectors, there is some improvement in the economic status of existing AFDC recipients.

TABLE 8.—THE EFFECT OF PARAMETER CHANGE 4 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

| | Proposed PBJI | Modified PBJI ($3.00) | Modified PBJI ($4.00) |
|---|---|---|---|
| Federal cash benefits (billions) | $19.2 | $18.5 | $17.4 |
| Number of job slots (millions) | 1.175 | 1.516 | 2.491 |
| Cost of jobs program (billions) | $8.8 | $12.3 | $26.9 |
| Cost of EITC (billions) | $4.5 | $4.3 | $3.5 |
| Number of current AFDC recipients made worse off (millions) | 3.8 | 3.4 | 3 |
| Number of current SSI recipients made worse off (million) | 1 | (¹) | (¹) |

¹ Indicates no change from the proposed PBJI.

## 5. Make a Title IX Public Service Job Available to the Primary Earner in All Household Units

PBJI guarantees a public service job to the primary earner in all household units with children: couples and unrelated individuals are excluded from participating in the jobs component of the program. It would seem to be only a matter of time before these households are brought more fully into the system. Because unrelated individuals are concentrated at the low end of the earnings distribution, bringing them fully into the system could greatly increase the demand for public service jogs. One factor moderating the demand for jogs is that a large part of this population is disabled and/or institutionalized.

Table 9 illustrates the effect of this parameter change. As expected, the increase in the demand for public service jobs is substantial—an increase of 460 percent. The budgetary costs of the jobs component rise from $8.8 billion to over $45 billion. The total cost of PBJI with this modification is $37 billion greater than the administration's proposal. While expanding the coverage of the jobs program to include unrelated individuals and childless couples would increase the horizontal equity of the program, it entails large increases in budgetary costs.

TABLE 9.—THE EFFECT OF PARAMETER CHANGE 5 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

| | Proposed PBJI | Modified PBJI |
|---|---|---|
| Federal cash benefits (billions) | $19.2 | $18.3 |
| Number of job slots (millions) | 1.175 | 6.580 |
| Cost of jobs program (billions) | $8.8 | $47.1 |
| Cost of EITC (billions) | $4.5 | $4.5 |
| Number of current AFDC recipients made worse off (millions) | 3.8 | (¹) |
| Number of current SSI recipients made worse off (million) | 1 | .9 |

¹ Indicates no change from the proposed PBJI.

## 6. Capping the Jobs Component of PBJI by Imposing a Ceiling of 800,000 New Jobs

The creation of new jobs on a mass basis is a difficult undertaking. As we stated in our earlier study:

The mass creation of public service jobs for low wage-low skill workers is something with which this country has no previous experience. The effort is analogous to a private firm's promise to introduce a new product, the manufacture of which requires a technology which has not yet been developed. In all such cases, the

effort is fraught with uncertainty, and the possibility of an ineffective and unproductive program must not be neglected.[4]

Given the difficulties of locating qualified contractor-sponsors and arranging productive work arrangements, it would not be surprising if the full complement of 1.4 million jobs could not be created during the first few years of the program. The number of jobs could also be constrained below the administration proposal, since for budgetary reasons, a lid may be placed on the number of jobs to be funded.

Because of the structure of PBJI, limiting the number of jobs made available will not result in proportional reduction of total program costs. While some of the workers who would have received a public job will find alternative private sector employment, some will remain unemployed and fall back on the benefits from the cash transfer component of the program.

Table 10 presents the cost consequences of limiting the number of job slots to 800,000. As expected, the budgetary costs of the jobs component is reduced—from $8.8 to $6.2 billion, a savings of $2.6 billion. However, some of this saving is offset by a $0.5 billion increase in cash benefits and a $0.1 billion increase in the EITC. The net saving is $2 billion. Accompanying this saving, however, are the undesired side effects of increasing the discretion of program administrators, "cream-skimming" in the selection of applicants, and horizontal inequities in the allocation of jobs.

TABLE 10.—THE EFFECT OF PARAMETER CHANGE 6 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

|  | Proposed PBJI | Modified PBJI |
|---|---|---|
| Federal cash benefits (billions) | $19.2 | $19.7 |
| Number of job slots (millions) | 1.175 | .8 |
| Cost of jobs program (billions) | $8.8 | $6.2 |
| Cost of EITC (billions) | $4.5 | $4.6 |
| Number of current AFDC recipients made worse off (millions) | 3.8 | 4.1 |
| Number of current SSI recipients made worse off (million) | 1 | (¹) |

¹ Indicates no change from the proposed PBJI.

## 7. Eliminate Federal Sharing of State Supplementation Costs and Use the Budgetary Savings To Increase the Guarantee on Both Tiers of PBJI

Federal incentives to encourage State supplementation of benefits significantly complicate the structure of PBJI, compromising the administration's claims that the system has been made simpler and that horizontal equity has been increased. The accompanying restrictions on the States also strain traditional intergovernmental relations. To the extent that the objective is to relieve the fiscal burden on the States, fiscal relief could also be obtained if the financial incentives for State supplementation were dropped and the Federal funds were put into higher guarantee levels. Were that done, and if States failed to supplement benefits on their own, many current recipients would be made worse off and the fiscal relief provided would be concentrated in the States now providing relatively low benefits. The effects on several relevant variables of simplifying the plan in this way are illustrated in table 11.

[4] Sheldon Danziger, Robert Haveman, and Eugene Smolensky, op. cit.

12

TABLE 11.—THE EFFECT OF PARAMETER CHANGE 7 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

| | Proposed PBJI | Modified PBJI |
|---|---|---|
| Federal cash benefits (billions) | $19.2 | $20.9 |
| Number of job slots (millions) | 1.175 | 1.21 |
| Cost of jobs program (billions) | $8.8 | $9.1 |
| Cost of EITC (billions) | $4.5 | $5 |
| Number of current AFDC recipients made worse off (millions) | 3.8 | 5.4 |
| Number of current SSI recipients made worse off (millions) | 1 | 1.24 |

In this simulation, costs of the Federal cash benefits portion of the bill were allowed to rise by $0.8 billion. Nevertheless, both the costs of the jobs program and the costs of the EITC also rise by a total of $0.8 billion. Despite the greater cost, the number of current AFDC recipients made worse off increases by 42 percent, and the number of SSI recipients made worse off increases by 24 percent. Hence, simplifying the State supplements portion of the bill in this way has significant adverse distributional effects. And while some fiscal relief is provided to State governments by this modification, its level is substantially reduced from that in the PBJI.

IV. SUMMARY AND CONCLUSION

The program for better jobs and income directly addresses the judgment of many observers of the current welfare system that those who cannot meet their basic needs through earnings should have cash assistance, but that those who can be provided the incentive and the opportunity to earn their way. Drafting a program to accomplish this objective is technically difficult. Providing cash assistance creates an incentive to some to reduce their work effort, and it is difficult to confine this work disincentive only to those who are judged unable to generate sufficient income through work. There are only two viable alternatives for minimizing the disincentive effects of cash transfers. One is to enforce a work test through tough administration. This requires a large bureaucracy and considerable intrusion into the privacy of cash assistance recipients. The other alternative is to create effective opportunities for and financial incentives to work, or at least to reduce the substantial disincentives present in existing programs. In the main, PBJI opts for this alternative. When work is refused by those expected to work, not only are earnings sacrificed, but the family sacrifices $1,900 per year in cash assistance. However, reliance is not entirely on opportunities and incentives, since the decision of who is and who is not expected to work is made by program administrators.

PBJI could have relied on the $155 per month penalty to send those who can work into the private job market. However, recognizing the hardships that might thereby be created, a special public service jobs program is created. To keep the costs of the jobs program down, wages were based on the minimum wage laws, not at prevailing market levels. Because the market wage of a large number of PBJI beneficiaries is this minimum wage, the special public service jobs would be attractive. However, these special jobs are intended to temporarily supplement private sector jobs. They are not intended to substitute for private sector jobs. PBJI participants could be moved out of the public and into the private sector by administrative procedures, but consistent

with the general approach, financial incentives are brought to bear. Through the EITC, work in the private sector or in a regular public sector job is given a financial bonus.

Providing cash assistance, financial work incentives, work opportunities, financial incentives to seek private sector employment, and maintaining budgetary restraint make for a complicated program. In addition, PBJI seeks to grant fiscal relief to the States and to sustain current benefit levels for the vast majority of current welfare recipients in a way that will not jeopardize other objectives, and thus, the program becomes even more complicated. The technical problem of balancing all these objectives involves a multiplicity of tradeoffs. How the framers of PBJI chose to trade off among these objectives has been illustrated in the preceding tables.

Holding the wage on special public service jobs to the minimum wage is clearly an effective check on the demand for those jobs and on total program costs. (See table 8.) It does, however, constrain the attractiveness of the work opportunities provided. Restricting public service jobs to families with children also substantially reduces the demand for those jobs and hence controls program costs. (See table 9.) Again, however, there is a cost. The work opportunities provided are limited to one group in the population, creating some horizontal inequities. The program is designed to grant all eligible persons a job. This decision entails higher budgetary costs than a more restricted and less equitable (though perhaps more realistic) jobs program. (See table 10.)

The complications associated with the two-tier cash assistance benefit schedule also stem from concern with work incentives. This concern may be exaggerated, as the elimination of the two-tier structure increases cash benefits by only 5 percent and reduces the demand for special purpose jobs by 5 percent. (See table 5.) The expanded EITC in the program is also designed to increase the reward to work—in this case work in regular employment. The budgetary costs of PBJI are increased substantially by this provision, which modestly affects the demand for special public service jobs and increases work incentives to those in the $4,000–$15,000 range. (See table 6.) Paradoxically, a simplification of the benefit schedule made before PBJI reached the Congress significantly increased the demand for public service jobs and total program costs. (See table 7.)

Finally, while Federal incentives to encourage State supplementation greatly complicate the PBJI, they effectively hold down Federal budgetary costs and forestall a substantial loss of benefits among current welfare beneficiaries. An alternative arrangement—raising Federal benefits by the amount of the Federal supplementation cost—increases the relative position of recipients in States with low current benefit levels, grants less fiscal relief to current high benefit States, and leaves many current recipients in high benefit States worse off (unless, of course, States would supplement the Federal benefit level in the absence of a financial inducement). (See table 11.)

These simulations indicate the sensitivity of cost and distributional effects to changes in various characteristics of PBJI. The changes which we have analyzed are in no sense exhaustive, and numerous questions remain to be answered. Among them are the following: (1) Do all people in equal need receive equal treatment? (2) Are the incomes of some beneficiaries raised above the incomes of some non-beneficiary taxpayers? (3) Is DHEW the most appropriate agency to administer the proposed cash assistance program? (4) What would be the cost and distributional effects of PBJI if the unemployment rate is above or below the 1981 unemployment rate (5.6 percent) projected by the administration?

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